

# READER'S GUIDE TO THE BUDGET

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## **Purpose**

The budget is a document that summarizes all public service programs provided by the City government. It is the annual plan for coordinating revenues and expenditures. The budget presented covers the period of July 1, 2006 to June 30, 2007. The amounts for FY 2007 are appropriated by the City Council.

## **Budget Overview**

This section provides information on budget and financial policies, fund structures, basis of accounting, the budget process, budget calendar, and the City's organizational chart. The section also includes revenue and expenditure summaries, discussion of major revenue sources, indebtedness, and personnel staffing.

## **General Fund**

The General Fund is used to account for primary government services. A summary of estimated revenues is provided for the total General Fund; for each operating department within the General Fund and a summary of historical and recommended expenditures.

## **Education Funds**

This section conveys the proposed Norfolk Public Schools Operating Budget.

## **Other Funds**

This section consists of budgetary information related to the City's Special Revenue Enterprise and Internal Service Funds.

## **Capital Improvement Plan**

This section provides detailed budget information on the five-year Capital Improvement Plan.

## **Statistical /General Information**

This section provides statistical/general information about the City such as an overview of the organization, services and selected functions.

## **Glossary**

This section provides definitions of budget-related terms.

## **Index**

The index contains an alphabetical reference of information contained in this document.

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# FINANCIAL POLICIES AND PRACTICES

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## OPERATING BUDGET

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The operating budget for the City is developed in pursuant to Section 67 of the Code of the City of Norfolk, Virginia. Per the code no less than sixty days before the end of the fiscal year, the City Manager must submit to the Council a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed expenditures based on detail estimates furnished by departments and other divisions of the City government. The budget is presented in a manner that identifies recommended appropriations, taxes, and estimated revenues with comparative statements. The budget is prepared by fund, function, and department.

Following the formal presentation of the Proposed Budget by the City Manager, a public hearing is conducted to communicate the proposed operating budget to the public. City Council is then required to adopt a final budget for operating funds no later than thirty days before the close of the previous fiscal year.

The formal approval of the budget is executed by the adoption of the ordinance delineating appropriations by fund. Additional budgetary controls are exercised administratively on an appropriation unit basis over combinations of object categories (budgetary account groups: personal services, materials, supplies and repairs, general operations and fixed charges, equipment, public assistance, and all purpose appropriations), as well as on a line item basis over individual objects (budgetary accounts). Department heads may transfer funds within a departmental budget with approval from the City Manager or the Office of the Budget and Management.

The City Manager is authorized to transfer money within a fund without further approvals by City Council. Basic policies and guidelines for the development of the City's annual budget are provided below.

## GENERAL FUND BALANCE RESERVES

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Annually, after the fiscal year end close, the Department of Finance & Business Services must produce a schedule of all fund surpluses and deficits. Analysis of compliance with the City's reserve requirements and a plan for the use of excess funds shall be included in a year end report to the City Council. The Director of Finance & Business Services may recommend policy or procedure changes based upon circumstances identified in the year end analysis.

The purpose of a reserve is to act as the City's "savings" account to meet emergency and unanticipated needs without jeopardizing the ongoing provision of City services. Reserves help to cushion against cash flow disruptions as seen in FY 2004 with expenditures resulting from Hurricane Isabel. The appropriate size of reserves depends on variability of revenues and expenditures and the City's cash flow needs. The general fund balance reserves policies include the following:

***Undesignated General Fund Balance*** – the City maintains an undesignated general fund balance equal to at least five percent of the annual general fund budget to help mitigate

current and future risks and to provide for temporary funding of unforeseen emergency or catastrophic needs.

***Risk Management Reserve*** – Because the City is self-insured for many of its risk exposures, the City's goal is to create a reserve equal to 1.5 times annual risk management budget of approximately \$6 million in the event of major unanticipated workers compensation or general liability claims. For FY 2005, the City's Risk Management Reserve was \$4,728,960 or 53 percent of the City's goal.

***Economic Downturn/Leveling Reserve*** – the City strives to meet the goal of a \$10 million reserve to abate the impact of short-term economic downturns on the overall budget and to build adequate reserves to transition the impact of extreme swings in revenues and/or expenditures such as, retirement contribution, health insurance, etc. For FY 2005, the City's Economic Downturn/Leveling Reserve was \$4,000,000 or 40 percent of the City's goal.

RESERVE	PURPOSE	GOAL FY 2006	PROJECTED FY 2006
General Fund Undesignated Balance	Good management practices recommend the accumulation of undesignated funds to mitigate current and future risks and to provide for temporary funding of unforeseen emergency or catastrophic needs.	\$36,398,420 5% based on FY 2006 General Fund Operating Budget of \$727,968,400	\$36,398,420
Risk Management Reserve	Because the City is self-insured, a reserve is needed in the event of a major unanticipated workers compensation or general liability claim.	\$9,000,000 (Approximately 1.5 times annual budget of \$6 million)	\$4,728,960 (53% of goal)
Economic Downturn/ Leveling Reserve	To abate the impact of short-term economic downturns on budget and to build adequate reserves to transition the impact of extreme swings in revenues and/or expenditures. This reserve is intended to be used as needed whereas the Undesignated Reserve is to be used for unforeseen emergency or catastrophic needs.	\$10,000,000	\$4,000,000 (40% of goal)

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## USE OF SURPLUSES

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The City uses surpluses to meet the afore-mentioned reserve goals, reduce outstanding debt, and to avoid future debt. After meeting the City's reserve requirements, excess surplus amounts may be used for the following purposes:

- Retirement of existing debt: surplus funds may be used to pay principal on existing revenue bonds or any other existing debt.
- Capital Replacement programs: Excess reserves may be directed to provide cash funding for certain capital equipment replacement programs.
- Cash Payments for Capital Improvement Projects: excess funds may be used to provide cash funding for capital improvement projects, thereby reducing the future debt burden upon the City.

When both restricted and unrestricted surplus resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

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## DEBT MANAGEMENT

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The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings. Based on this legal limit, the City can issue debt in excess of \$1.0 billion (See page 1 – 43). While this is the legal limitation, the City is well aware it cannot take on expenditures beyond its fiscal means of affordability. Therefore, the City uses three internal debt targets to guide the development of the Capital Improvement Program (CIP). These measures or debt limits include:

- Debt Service as a percent of the general fund budget (not to exceed 10 percent).
- Net debt as a percent of taxable real estate should not exceed 3.5 percent.
- Net debt as a percentage of total per capita income should not exceed 7.5 percent.

In determining general obligation debt limitations, certain classes of indebtedness may be excluded, including revenue anticipation notes maturing in one year or less, referendum approved general obligation bonds payable from a specified revenue producing undertaking, so long as the undertaking is self-supporting, capital leases and revenue bonds. The City's enterprise operations for Water and Parking bonded debt are a combination of self-supporting, general obligation and revenue bonds. The City's operations for Wastewater and Storm Water bonded debt are self-supporting general obligation bonds. Since the self-supporting general obligation debt of each of the enterprise operations was approved without referendum they are included in the City's legal debt limit.

Using these guiding principles, the City has never defaulted on the payment of either principal or interest on any debt.

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## CAPITAL IMPROVEMENT PROGRAM

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The City uses several guiding principles and best practices to manage the Capital Improvement Program (CIP). The principles that govern the CIP are intricately intertwined with the debt management practices mentioned in the previous section. Using the principles as a foundation, the CIP is developed to promote capital infrastructure that support the City Council's vision and priorities by establishing a five-year capital implementation plan. In formulating this long range plan, input is solicited from various parties such as City departments, City Council and citizens.

The approved CIP includes projects that meet at least one of the City Council established eight policy areas (see CIP section for definitions):

- Education
- Transportation
- Economic Development
- Cultural Facilities
- Neighborhood Development
- Public Buildings
- Parks and Recreation Facilities
- General and Other

In addition, approved projects must also meet the minimum cost threshold of \$50,000 or more and should extend the useful life of an existing asset or create an asset with a useful life such that the useful life of the asset exceeds the life of the debt instrument used to finance the project.

Various sources of funding are used to establish the CIP. These sources include general fund supported debt and non-general fund supported debt such revenue bonds or cash contributions from various resources. The City strives to achieve an annual pay-as-you-go contribution of 12.5 percent cash contribution for the CIP.

# FUND STRUCTURE

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## FUND STRUCTURE

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The City uses fund accounting techniques to ensure and demonstrate compliance with finance-related legal and regulatory requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City's funds can be divided into four categories: governmental funds, proprietary funds, component unit funds, and fiduciary funds.

### GOVERNMENTAL FUNDS TYPE

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Governmental Funds consist of the General Fund, Special Revenue Funds, Capital Project Fund, and Debt Service Funds. Most governmental functions of the City are financed through these funds. The modified accrual basis of budgeting is used for all governmental funds.

#### General Fund

The general operating fund of the City accounts for all financial transactions not required or preferred to be accounted for in other funds. The General Fund accounts for the normal recurring activities of the City, such as police, public works, general government, etc. These activities are funded by such revenue sources as general property taxes, other local taxes, permits, privilege fees and regulatory licenses, fines and forfeitures, use of money and property, charges for services, recovered costs and non-categorical aid, shared expenses and categorical aid from the Commonwealth and Federal Government.

#### Special Revenue Funds

The Special Revenue Funds account for the proceeds of specific revenue resources (other than expendable trusts or major capital projects) and require separate accounting because of legal or regulatory provisions, or administrative action.

#### Capital Project Fund

Capital Project Funds account for the acquisition, construction or renovation of major capital facilities of the City or the School Board.

### PROPRIETARY FUNDS TYPE

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The City maintains two types of Proprietary Funds- Enterprise Funds, and Internal Service Funds. Proprietary Funds account for operations similar to those found in the private sector, and they include the Parking Operations, Wastewater, and Water Utility Funds. The Proprietary Fund measurement focus is upon determination of net income, financial position and changes in financial position. The full accrual basis of budgeting is used for all Proprietary Funds.

#### Enterprise Funds

##### Parking Facilities Fund

The Parking Facilities Fund accounts for the operation of city-owned parking facilities (garages, lots and on-street meters). The cost of providing services is financed or recovered through user charges for long-term and short-term customer use and fines for parking violations.

## **Wastewater Fund**

This fund accounts for the operation of the City-owned wastewater (sewer) system. The cost of providing services basis is financed or recovered through user charges to Norfolk residential and commercial customers.

## **Water Utility Fund**

This fund accounts for the operations of the City-owned water system. The cost of providing services is financed or recovered through user charges to customers. These customers include Norfolk residential and commercial customers and the U.S. Navy.

## **Internal Service Funds**

These funds account for the financing of goods and services supplied to other funds of the City and other governmental units on a cost-reimbursement basis. Internal service funds have been established for the Storehouse and Fleet Management funds.

## **COMPONENT UNIT FUNDS**

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### **Education**

The City's total budget includes the funds of the Norfolk Public Schools. The primary sources of revenue, exclusive of the transfer from the City's General Fund, are basic school aid and sales tax revenues from the Commonwealth of Virginia and educational program grants. Major expenditures are for instructional salaries and facility operating costs for the schools.

### **School Operating Fund**

The School Operating Fund is the general fund of the School Board. It is used to account for all financial resources except those required to be accounted for in another fund.

### **School Grants Fund**

This fund accounts for revenues and expenditures for Federal, State and other grants for specific programs pertaining to education.

### **School Child Nutrition Service**

This fund accounts for the administration of the school breakfast and lunch program.

## **FIDUCIARY FUNDS**

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Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The fiduciary funds include the City's Pension Trust Fund, the Commonwealth of Virginia Agency Fund, and the Miscellaneous Agency Fund. Fiduciary funds are not included in the City Government's budget or financial statements, because the resources in such funds are not available to support the City's programs. Fiduciary fund statements are presented separately within the City's Comprehensive Annual Financial Report (CAFR).



# **BASIS OF BUDGETING**

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The budgets of governmental fund types (General Fund, Special Revenue and Capital Projects Funds) of the City are prepared on the modified accrual basis. The accrual basis of budgeting is used for the Enterprise Funds and Internal Service Funds, except for depreciation, debt principal payments and capital outlay (see Basis of Accounting below).

For the modified accrual basis, obligations (such as purchase orders) are recorded as expenditures when the related fund liability is incurred (other than interest on general long-term liabilities). Revenues are recorded when they are measurable and available.

The accrual basis recognizes expenses when the liability is incurred regardless of the related cash flows. Revenues, however, are recognized when earned. (Accrual methodology is based upon known present and future expenses and revenues-not upon cash spent or received).

The level of control, or level of which expenditures may not legally exceed the budget, is at the department level for the General Fund and the fund level for all other funds. Any change in appropriation level of the Fund must be approved by the City Council. The City Manager may approve any changes within a Fund which do not require an alteration of the appropriation level. Appropriations lapse at year-end, except appropriations for the Grants Fund and the Capital Improvement Fund, which are carried forward until such time as the grant or project is completed.

# **BASIS OF ACCOUNTING**

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The Comprehensive Annual Financial Report (CAFR) presents the status of the City's finances in accordance with generally accepted accounting principles (GAAP). In most cases this conforms to how the City prepares its budget. Exceptions are as follows:

Compensated absences are recorded as earned by employees (GAAP) as opposed to being expended when paid (Budget).

Principal payments on long-term debt within the Proprietary Funds are reduces the amount of debt remaining on a GAAP basis as opposed to being expended on a Budget basis.

Capital Outlay within the Proprietary Funds is recorded as assets on a GAAP basis and expended on a Budget basis.

Depreciation expenses are recorded on a GAAP basis only.

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# BUDGET PROCESS

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## **Formulation of the City Manager's Proposed Budget**

The City Charter requires the City Manager to prepare and submit to the City Council an annual budget.

The annual budget process commences in each fall. The budget calendar is developed which establishes the timelines for the process, including the date of submission of departmental requests, budget work sessions and public hearings that lead to final adoption of the budget.

Department requests are based on a budget instruction manual. Each request must relate to the organization's program objectives. The requests are received and compiled by the budget staff. Due to revenue constraints, departments are generally encouraged to develop proposals to trade or reduce expenditures rather than seek additional funding.

An operating budget is adopted each fiscal year for the General Fund, Water Utility Fund, Wastewater Utility Fund, Parking Fund, Storm Water Fund and Internal Service Funds. All funds are under formal budgetary control, the most significant of which is the General Fund. No less than sixty days before the end of fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July. The Operating Budget includes recommended expenditures and the means to finance them.

## **City Council's Authorization and Appropriation**

After general distribution of the proposed operating budget, a public hearing is conducted to obtain comments and recommendations from the public. No less than thirty days before the end of the fiscal year, the budget is legislatively enacted by the City Council through adoption of one or more ordinances. The ordinance for the annual operating budget appropriates funds, subject to certain conditions, for the use of departments. The ordinance authorizes salaries, wages and personnel positions as set forth in the detailed budget document. Amounts appropriated for each department are to be expended for the purposes designated by object group; i.e., categories including personal services, materials, supplies and repairs, equipment, public assistance payments, and debt service.

## **City Manager's Authorization**

In a given year, the City Manager is authorized to transfer from any department, fund or activity which has a budgetary excess of funds appropriated to any department, fund or activity as necessary.

## **Budget Implementation**

Once the budget is adopted on July 1, it becomes the legal basis for the programs of each department of the City during the fiscal year. No department or other agency of the city government may spend in excess of approved and appropriated amounts. Financial and programmatic monitoring of departmental activities to ensure conformity with the adopted budget takes place throughout the year. Copies of the Adopted Budget can be found in the Kirn Library and may be obtained from the Office of Budget and Management.

Unencumbered appropriations lapse at the end of the fiscal year and are returned to fund balance for re-appropriation. The City Manager is responsible for maintaining a balanced budget at all times. In the event it is identified there is a gap between revenues and expenditures, the City Manager will take such actions necessary to cause a rebalancing of the budget.

## **Capital Improvement Plan**

City Council also adopts a Capital Improvement Program Budget and a Consolidated Plan Budget. As in the case of the Operating Budget, these budgets are submitted by the City Manager, public hearings are held, and the budgets are legislatively enacted through adoption of ordinances.

Budgets are also individually adopted for a Special Revenue (Grants) Fund. Ordinances are generally approved when a grant to the City has been awarded.

Appropriations for project funds and grant funds do not lapse at year-end, but continue until the purpose of the appropriation has been fulfilled or is otherwise terminated. Amendments to these budgets are effected by City Council action. The level of budgetary control is on a project basis with additional administrative controls being exercised.

## **Budgetary Principles and Policies**

Budgetary principles and policies include:

- Provisions to strive for a structurally balanced budget whereby current expenditures are supported by current revenues;
- Preparation of a mid-year budget update, reporting projected revenues and expenditures for the entire fiscal year and receipt of unbudgeted revenues and other major changes to the adopted budget;
- Preparation of a five-year forecast, which serves as the basis for the City Manager's annual recommended budget;
- Requirement that the City Manager prepare a Five-Year Capital Improvement Plan that incorporates operating costs and is stated in "year of expenditure dollars;" and
- Provisions for the City to continue its goal to include 12.5 percent of General Capital Improvements in cash (pay as you go) contributions.

# BUDGET CALENDAR

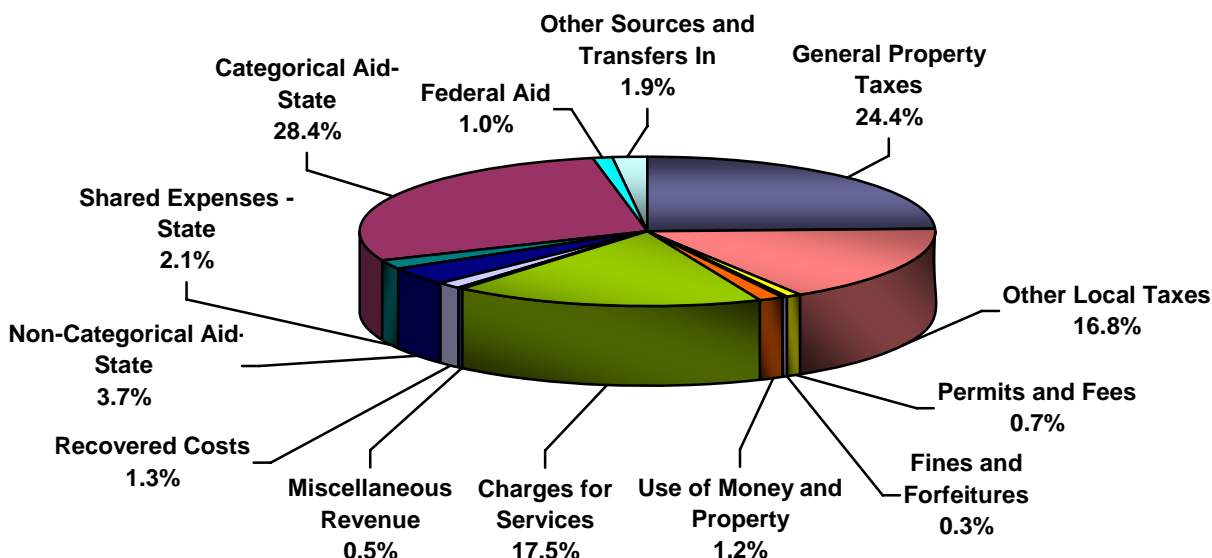
DATE	DESCRIPTION
October 1, 2005	Capital Improvement Plan (CIP) instructions provided to departments
October 28, 2005	Departments submit CIP Budget Request
November 14, 2005	Budget Kick-off Meeting with Department Heads and their budget staff, including Preliminary mid-year review and Financial Plan Overview
December 14, 2005	Departments Submit FY 2007 Operating Budget Requests
January 17, 2006	Outside Agencies (Public Amenities and Community Partners) submit FY 2006 Budget Requests
January 23, 2006	Base Budgets Finalized and Distributed to Departments
February 1, 2006 to March 1, 2006	Department Meetings with Budget Staff and Executive Budget Team
April 25, 2006	Formal Presentation of FY 2007 Operating Budget to City Council at regularly scheduled meeting
May 3, 2006	Public Hearing on Operating Budget and Annual Capital Budget, and Tax and Fee Changes (CDBG)
May 8, 2006	Public Hearing on Real Property Tax Rate and Assessments
May 9, 2006	Budget Work Session with City Council
May 16, 2006	Adoption of FY 2007 Operating Budget, Capital Improvement Plan, Tax Ordinances and Appropriations Budget Adoption (in accordance with City Code, budget must be adopted by May 31)

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# ESTIMATED REVENUES BY SOURCE

The following table represents the total FY 2007 Approved Operating Budget as compared to the Approved Operating Budget for FY 2006. The major categories of funding sources are shown to permit the reader a broad overview of the predominant sources of revenue for all operating funds of the City. Revenues are contained in those categories where they are originally raised.

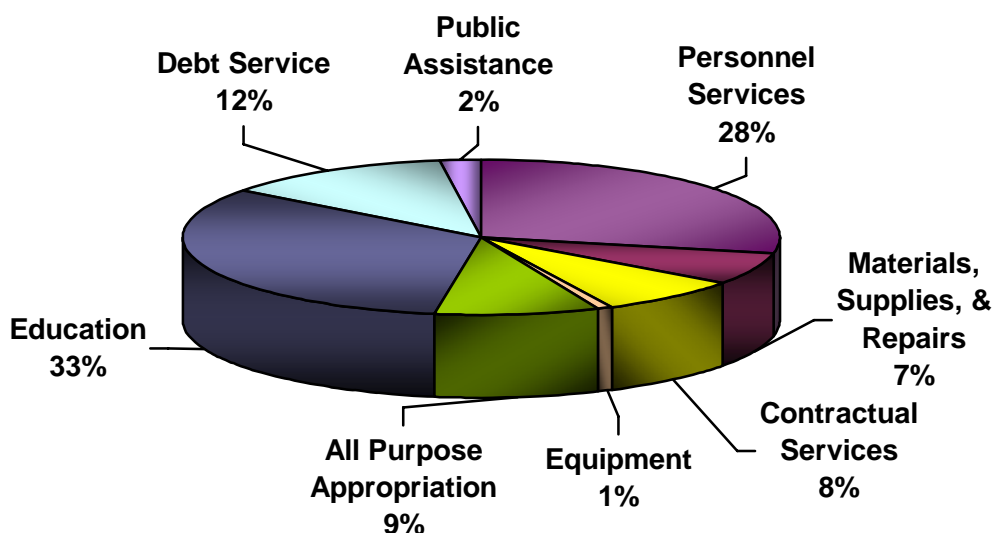
SOURCE	FY 2005 ACTUAL	FY 2006 APPROVED	FY 2007 APPROVED	FY 2006 vs. FY 2007	
				\$ CHANGE	% CHANGE
General Property Taxes	193,292,528	207,791,900	228,493,000	20,701,100	10.0%
Other Local Taxes	149,754,617	153,062,414	157,284,335	4,221,921	2.8%
Permits and Fees	6,313,393	5,677,876	6,372,834	694,958	12.2%
Fines and Forfeitures	3,876,953	3,247,500	3,135,000	-112,500	-3.5%
Use of Money and Property	11,179,198	8,907,826	11,553,860	2,646,034	29.7%
Charges for Services	145,603,609	153,087,411	164,081,741	10,994,330	7.2%
Miscellaneous Revenue	7,193,917	4,900,100	4,502,282	-397,818	-8.1%
Recovered Costs	17,545,483	15,925,975	12,601,499	-3,324,476	-20.9%
Non-Categorical Aid-State	33,040,602	33,793,100	34,571,700	778,600	2.3%
Shared Expenses - State	18,529,230	19,140,100	19,518,500	378,400	2.0%
Categorical Aid-State	240,079,325	252,400,700	266,127,600	13,726,900	5.4%
Federal Aid	5,744,705	8,670,743	9,312,803	642,060	7.4%
Other Sources and Transfers In	22,988,055	15,871,555	18,016,446	2,144,891	13.5%
<b>TOTAL</b>	<b>855,141,615</b>	<b>882,477,200</b>	<b>935,571,600</b>	<b>53,094,400</b>	<b>6.0%</b>



# ESTIMATED EXPENDITURES BY USE

The following table represents the total FY 2007 Approved Operating Budget as compared to the Approved Operating Budget for FY 2006. The major categories of funding uses are shown to permit the reader a broad overview of the predominant uses of expenditures for all operating funds of the City. Expenditures are contained in those categories where they are originally spent.

USES	FY 2005 ACTUAL	FY 2006 APPROVED	FY 2007 APPROVED	FY 2006 vs. FY 2007	
				\$ CHANGE	% CHANGE
Personnel Services	241,227,670	253,000,590	264,763,871	11,763,281	4.6%
Materials, Supplies, & Repairs	51,254,416	53,553,608	61,624,035	8,070,427	15.1%
Contractual Services	59,925,301	67,960,556	74,810,204	6,849,648	10.1%
Equipment	6,573,986	4,347,116	5,528,302	1,181,186	27.2%
All Purpose Appropriation	55,789,428	78,006,150	83,334,867	5,328,717	6.8%
Education	270,486,488	290,464,600	308,714,200	18,249,600	6.3%
Debt Service	88,387,747	112,615,819	115,600,127	2,984,308	2.6%
Public Assistance	22,608,202	22,528,761	21,195,994	-1,332,767	-5.9%
<b>TOTAL</b>	<b>796,253,238</b>	<b>882,477,200</b>	<b>935,571,600</b>	<b>53,094,400</b>	<b>6.0%</b>

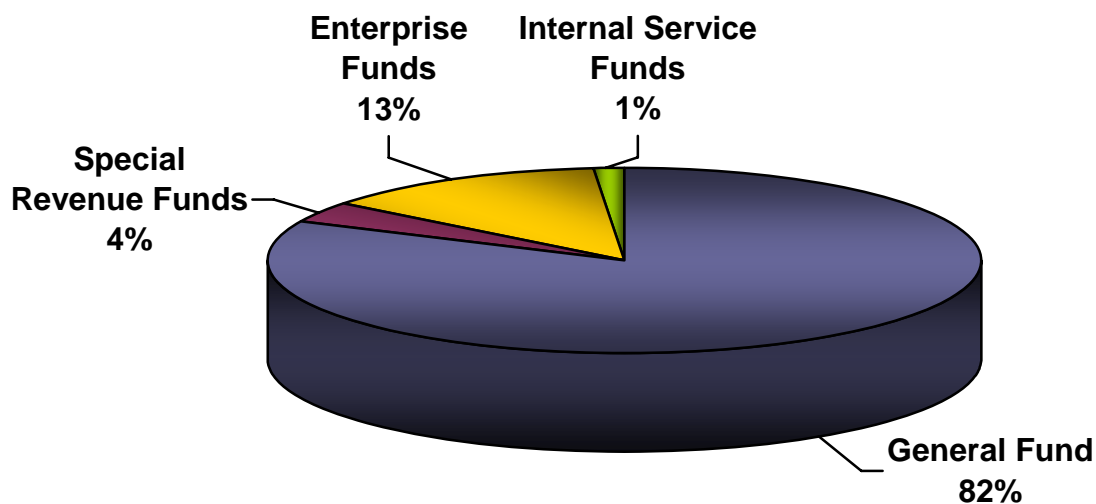




# ESTIMATED EXPENDITURES BY FUND

The following table shows the comparison of expenditures by fund type of the FY 2007 Approved Operating Budget with the FY 2006 Approved Operating Budget.

FUND	FY 2005 ACTUAL	FY 2006 APPROVED	FY 2007 APPROVED	FY 2006 vs FY 2007	
				\$ CHANGE	% CHANGE
General Fund	674,554,735	726,401,200	766,689,400	40,288,200	5.5%
Special Revenue Funds	23,287,076	29,445,900	34,076,700	4,630,800	15.7%
Enterprise Funds	89,220,125	116,906,900	122,881,300	5,974,400	5.1%
Internal Service Funds	9,191,302	9,723,200	11,924,200	2,201,000	22.6%
<b>TOTAL</b>	<b>796,253,238</b>	<b>882,477,200</b>	<b>935,571,600</b>	<b>53,094,400</b>	<b>6.0%</b>



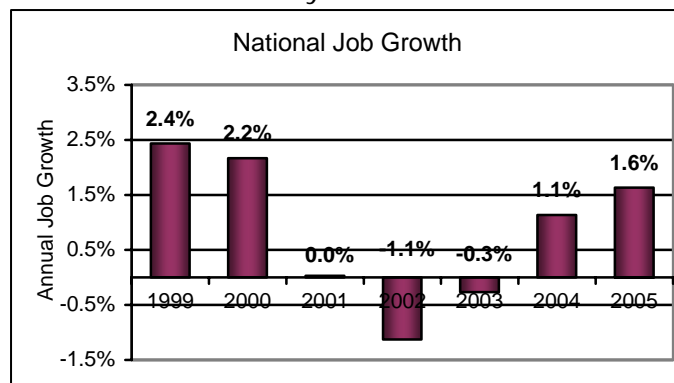
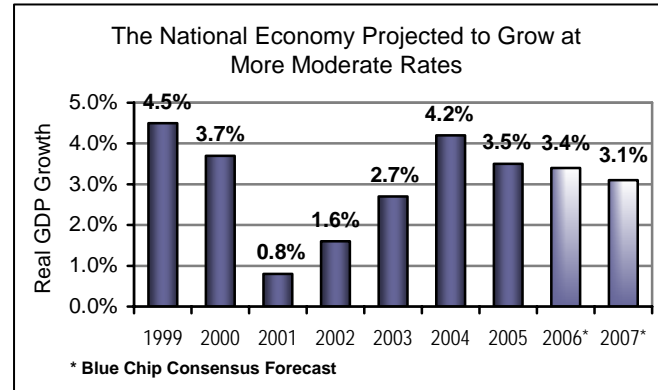
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# MAJOR REVENUE SOURCES

Norfolk budgets and accounts for its revenues (and expenditures) within various funds. The City's revenues continue to show growth. However, the ongoing, as well as the long-term financial health of the City, requires a close review of the economy and major revenue sources.

## ECONOMIC OVERVIEW

The national economy continued its expansion in 2005, but at a lower rate than in 2004. Real gross domestic product, which is the value of all goods and services produced within the U.S. adjusted for inflation, grew 3.5 percent in 2005; in comparison, real GDP growth in 2004 was 4.2 percent (revised). The lower rate of growth in 2005 reflects a deceleration in the growth of consumer spending, residential investment, and business investment in equipment and software. Real GDP growth is projected to be slightly lower in 2006 and 2007. The Blue Chip Consensus forecast (January 10) - a

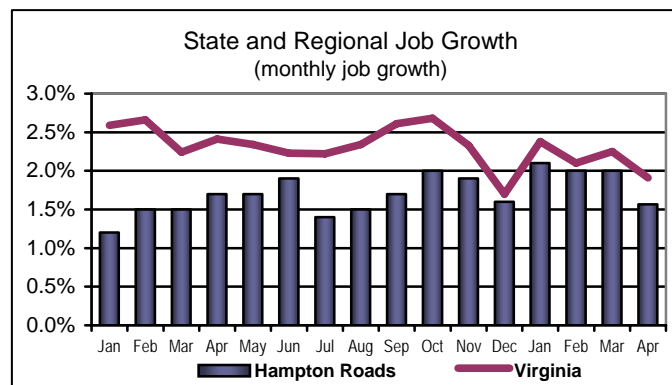


consensus forecast by financial institutions and consultants - projects growth to be 3.4 percent in 2006 and 3.1 percent in 2007. Job growth continued its recovery in 2005. Non-farm payroll employment grew by almost 2.0 million (revised) for the year, making this year and last year the first consecutive year of significant job growth since 2000.

Job growth also continued in Virginia in 2005 with increases experienced in every month of the year. Virginia tied with Vermont for having the third lowest

unemployment rate for the year among the fifty states. With at least 40 percent of the City of Norfolk's General Fund revenues coming from the Commonwealth, the majority of these earmarked for basic services, the status of the City's General Fund and the level of basic services the City provides are dependent upon the performance of the state economy.

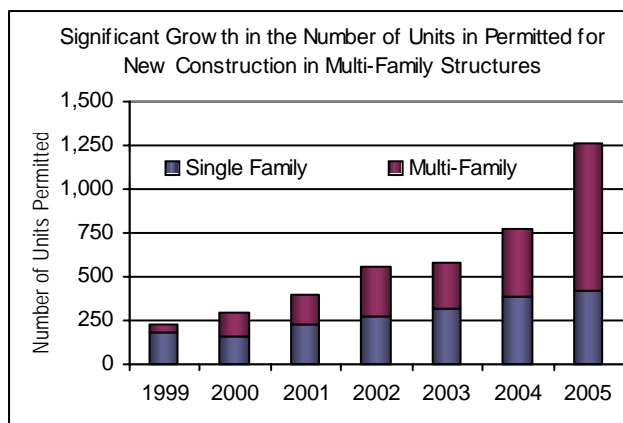
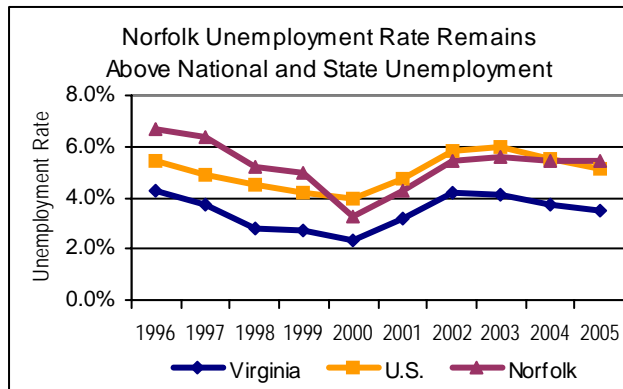
The Hampton Roads economy remained relatively stable. However, the recent announcement by Ford Motor Company to close its Norfolk Assembly Plant in 2008 will mean the loss of a major employer for the region. The Norfolk Assembly Plant has a workforce of more



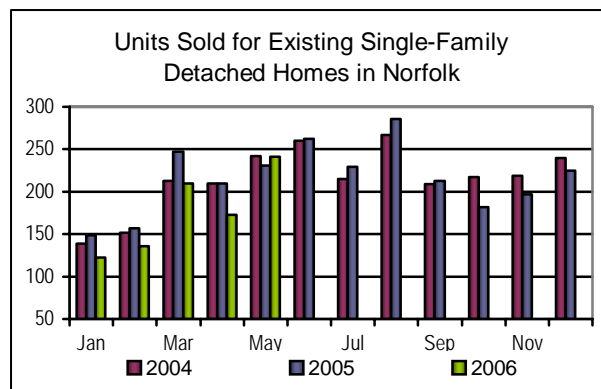
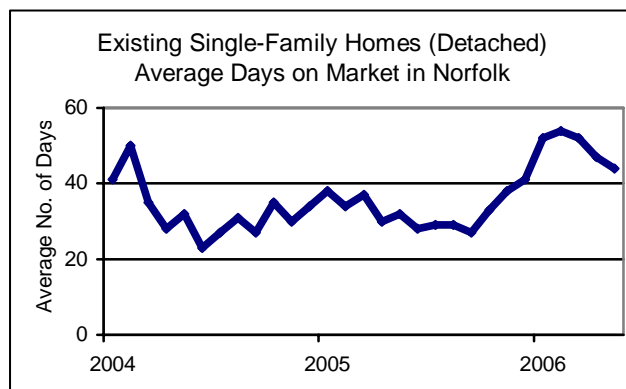
than 2,400 and an annual payroll of \$160 million. The closure will also affect local companies that do business with Ford. Prior to the Ford announcement, Old Dominion University Economic Forecasting Project and the Hampton Roads Planning District Commission had forecast slower growth for the Hampton Roads region.

Norfolk's unemployment rate remains higher than that of national and state rates. Norfolk's higher than regional unemployment rate has been credited to the flow of military dependents into and out of the area.

Construction activity and the real estate market remained strong in Norfolk in 2005. There was significant growth in residential units permitted for construction, particularly in multi-family structures. However, there are signs that the real estate market maybe starting to cool. Existing single family detached homes sold in Norfolk have declined in the past seven months when compared over the same period last year. Homes are also staying on the market longer before being sold.



In FY 2007, Norfolk real estate assessments overall are projected to grow approximately 22.6 percent over the previous year. Double-digit levels of growth are also being projected in neighboring cities. The recent growth in real estate assessments has been fueled largely by the growth in the residential market. Rising interest rates may dampen growth in the housing market.



Revenue projections in the General Fund were formulated and presented initially in February, using five-year historical trends combined with the latest economic indicators. Projections were revised in March and April to incorporate the most recent information available. Estimates for each revenue source are based on a careful examination of the collection history and patterns, the underlying drivers that impact the revenue source, and

the overall economic environment projected for the City in the coming year. Revenue projections include a year-end estimate for FY 2006 and an estimate for FY 2007.

Revenue estimates for all funds for FY 2007 reflect a 6.0 percent growth over the approved budget of the prior fiscal year, bringing total revenues to \$935.6 million. This is a net increase of approximately \$53.1 million.

<b>Total Revenues (All Funds)</b>					
<b>SOURCE</b>	<b>FY 2005 ACTUAL</b>	<b>FY 2006 APPROVED</b>	<b>FY 2007 APPROVED</b>	<b>FY 2006 vs FY 2007</b>	
				<b>\$ CHANGE</b>	<b>% CHANGE</b>
General Property Taxes	193,292,528	207,791,900	228,493,000	20,701,100	10.0%
Other Local Taxes	149,754,617	153,062,414	157,284,335	4,221,921	2.8%
Permits and Fees	6,313,393	5,677,876	6,372,834	694,958	12.2%
Fines and Forfeitures	3,876,953	3,247,500	3,135,000	-112,500	-3.5%
Use of Money and Property	11,179,198	8,907,826	11,553,860	2,646,034	29.7%
Charges for Services	145,603,609	153,087,411	164,081,741	10,994,330	7.2%
Miscellaneous Revenue	7,193,917	4,900,100	4,502,282	-397,818	-8.1%
Recovered Costs	17,545,483	15,925,975	12,601,499	-3,324,476	-20.9%
Non-Categorical Aid-State	33,040,602	33,793,100	34,571,700	778,600	2.3%
Shared Expenses - State	18,529,230	19,140,100	19,518,500	378,400	2.0%
Categorical Aid-State	240,079,325	252,400,700	266,127,600	13,726,900	5.4%
Federal Aid	5,744,705	8,670,743	9,312,803	642,060	7.4%
Other Sources and Transfers In	22,988,055	15,871,555	18,016,446	2,144,891	13.5%
<b>TOTAL</b>	<b>855,141,615</b>	<b>882,477,200</b>	<b>935,571,600</b>	<b>53,094,400</b>	<b>6.0%</b>

The City generates revenue through taxes, user charges, and intergovernmental transfers from the state and federal government. Over half of the City's General Fund revenues are locally generated from various taxes and fees including real estate, sales, utility, franchise, permits, fines and user charges. These sources provide the revenue to fund general services such as police, fire, parks and recreation, street maintenance, local commitment to education, human services, and central administrative revenue. An increasing portion of the locally generated funds, by necessity, is being used to fund state obligations where state funding falls short.

The Commonwealth provides about 41.8 percent of general fund revenues which consist of funding for dedicated purposes such as education, social services, transportation and constitutional officers. Revenues from the Commonwealth from the tax on rental of cars, HB 599 and reimbursements for personal property tax are also part of this category. The City has very little discretion on how the majority of the revenues from the state are spent. Also, Norfolk, being landlocked and prohibited from annexation, is restricted from creating funding mechanisms that allow the City to independently make up any shortfalls in state funding. Although public schools will continue to see a large influx of funds in FY 2007 due

to revenues generated from tax reform at the state level, Norfolk remains vulnerable to the impact of flat or reduced state aid in the future.

The federal government provides approximately one percent of City revenues. Nearly all of these funds are dedicated towards education.

The remaining revenues come from recovered costs, inter-fund transfers, and carry-forward funds from accumulated savings. Inter-fund transfers represent a return on investment from the Water and Wastewater utility operations. Carry-forward funds for one-time expenditures are made possible from current and prior year savings.

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## REVENUE MONITORING

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Collection patterns for all of the City's revenue sources are continuously monitored throughout the year. Data from monthly financial reports are monitored to determine the accuracy of budget projections. This allows for appropriate administrative action if actual results differ substantially from projections. A detailed collections database is compiled to project future revenue collections taking into account unique patterns or seasonal fluctuations. Strong collection rates for locally generated taxes and fees reflect the commitment and fulfillment of responsibility that Norfolk residents show to their City.

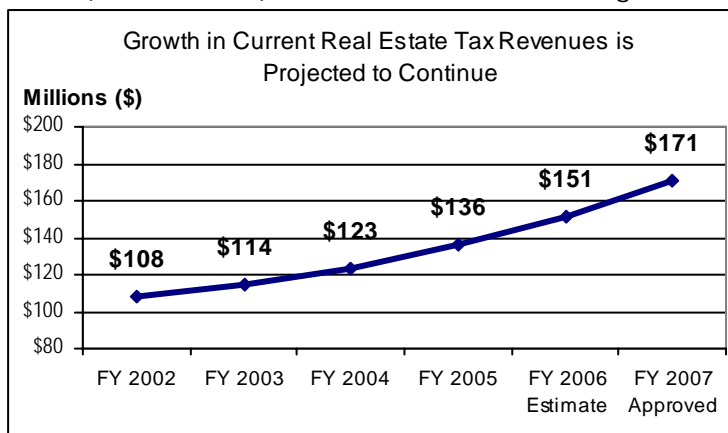
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## GENERAL PROPERTY TAXES

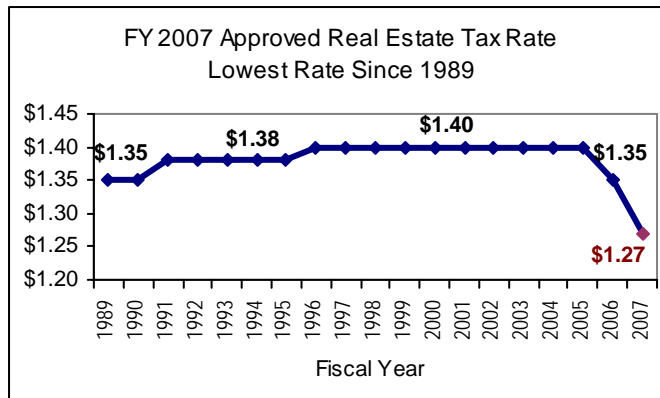
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General Property Taxes are levied on the assessed value of real and personal property. They represent about 30 percent (\$231 million) of the City's General Fund revenues.

Real estate taxes make up the largest component of general property taxes. Current real estate taxes make up almost 22.3 percent (\$171 million) of the General Fund budget. The FY 2007 approved budget includes an 8-cent reduction in the real estate tax rate from \$1.35 to \$1.27 per \$100 assessed value. This tax rate reduction results in a reduction of real estate tax revenues of approximately \$11.7 million. All real property owners in the City, including residential, commercial, apartment and vacant land property owners, as well as public service corporations, would see a reduction in their real estate tax rate.



In addition, the City has set aside real estate tax revenues of approximately \$6.9 million for tax relief for senior and disabled homeowners and a new tax deferral program for certain homeowners. Overall assessments city-wide are projected to grow 22.6 percent in FY 2007. Neighboring localities are likewise experiencing double-digit growth in real estate assessments.



Considerations about the City's growth in real estate assessments should take into account the fact that more than 40 percent of real property in the City is tax-exempt mainly due to federal land ownership. With the City being fully developed, a large portion of the increased growth in value is attributed to redevelopment efforts.

Another major component of general property taxes is the personal property tax, which is levied on all tangible

personal property, including motor vehicles, boats, aircraft, business furnishings and office equipment. Household goods and personal effects are exempt.

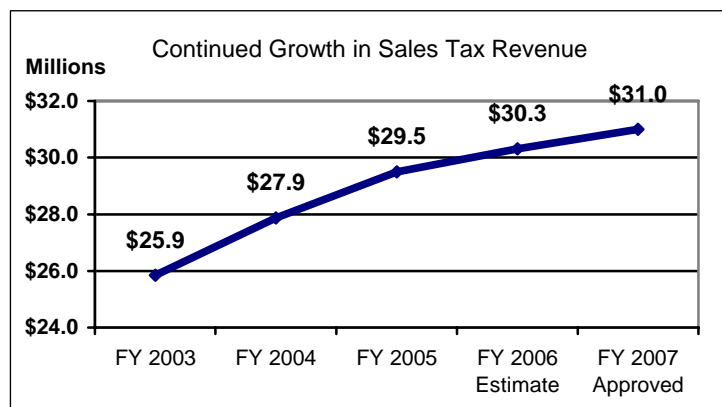
Current personal property tax for the General Fund (including the budgeted amount for refunds) is expected to grow by approximately 10.2 percent over the FY 2006 adopted budget. In 2004, the state passed legislation that places a cap on car-tax reimbursement statewide at \$950 million beginning in FY 2006. As a result, each locality in the state will receive a flat reimbursement amount rather than a reimbursement of 70 percent of the total property tax eligible for reimbursement. Norfolk's allocation of the \$950 million is \$16,871,056. With the state's capping the amount of funds available for car tax relief, the percentage of the state reimbursement compared to the total tax will decrease over time and citizens will pay an increasing share of the car tax.

The machinery and tools tax is the remaining component of general property taxes. These are levied on all machinery and tools used in manufacturing, mining, radio and television broadcasting, cable television, dry cleaning or laundry businesses. Revenue from this source may be reduced significantly in the future if the Ford Assembly Plant closes in 2008.

## OTHER LOCAL TAXES

Other local taxes are comprised of consumer and business-based taxes, including excise taxes on utilities, sales, hotel/motel, restaurant, admissions, and cigarettes, as well as franchise and business license taxes. Local taxes make up about 19 percent (\$148 million) of the City's General Fund revenues.

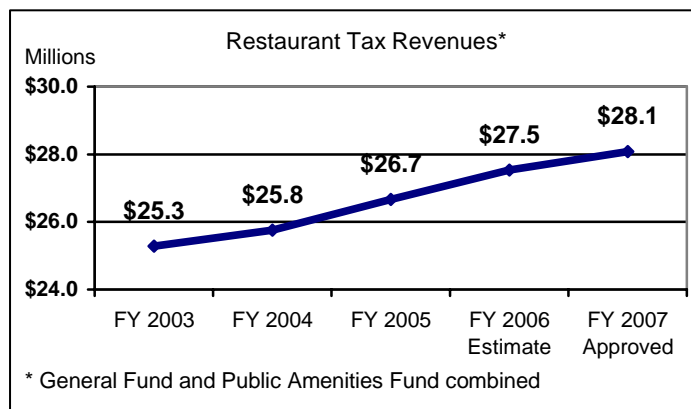
Sales tax is levied on the selling, distribution, use, or consumption of tangible personal property, the leasing or renting of tangible personal property and the storage of personal property inside or outside Virginia that is for use in Virginia. Monthly tax receipts help to project this tax. Revenue from this source is sensitive to underlying price level changes and will increase with the price of goods sold. Current year estimates are used in projecting next year's revenues after applying overall price assumptions. Changes in the local retail market (such as opening of new stores,



performance of existing malls, and overall consumer confidence index) are used for projecting this revenue.

Consumer's utility tax is levied on the purchase of utility service including water, gas, electricity, local telecommunications and cable television services. The tax is assessed on the amount charged, exclusive of any federal tax, for telephone, water, cable TV, and cellular phones. Monthly receipts are monitored and used as a basis for estimating the revenue yield, taking seasonal variations into consideration. However, changes are anticipated from revenues derived from telephones, cell phones and cable TV as a result of the State's telecommunications tax reform enacted during the 2006 session of the General Assembly. Beginning January 1, 2007, the consumer utility tax on telephone, cable TV, cellular phones, along with the cable franchise tax, will be abolished and replaced by "Virginia Communications Sales and Use Tax". E-911 taxes on telephones and cell phones by localities will also be replaced by a uniform \$0.75 tax per phone. While the General Assembly intent is that this action be revenue neutral, no definitive data are available to determine the impact on City revenues.

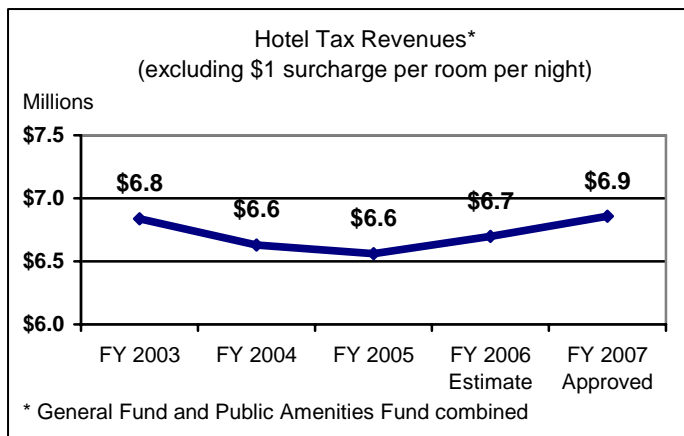
Business license tax is collected from any person who engages in a business, trade, profession, occupation, or other activity in the City. It is also applied to individuals that maintain a place of business, either permanent or temporary, or conduct a business-related activity. Rates vary depending on business classification, and are generally imposed as a percentage of gross receipts. This revenue is projected to grow 6.4 percent over the FY 2006 year-end estimate.



Restaurant tax is collected on prepared meals, and the tax rate is 6.5 percent of the value of the meal with 1 percentage point allocated to the Public Amenities Fund and the remaining 5.5 percentage points allocated to the General Fund. This revenue stream has been growing due to the increase in the number of restaurants that have opened in downtown Norfolk and the development along the Military Highway corridor. A significant portion of the growth in restaurant tax

collections realized in FY 2006 occurred in the period coinciding with the Lion King performance, which also had a positive effect on admissions tax collections in FY 2006. Growth is expected to continue in this revenue source in FY 2007.

Hotel tax is levied on hotel rooms rented out and charged based on 8 percent of the room rate. Like the meals tax, 1 percentage point is allocated to the Public Amenities Fund and the remaining 7 percentage points are allocated to the General Fund. In FY 2006, at the request of the Norfolk Hotel Motel Association, City Council approved a \$1 flat tax per room per night stay. The City began to collect this tax on April 1, 2006. Revenues from this flat tax,





when received, will be used solely by the Norfolk Convention and Visitors Bureau for visitor promotion and advertising for conventions and tourism and is budgeted as a separate line item from the hotel tax. The hotel tax estimate (excluding the \$1 flat tax) in FY 2007, based on historical trends, is approximately \$6.9 million (with \$6.0 allocated to the General Fund and the remainder to the Public Amenities Fund).

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## **PERMITS AND FEES**

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Permits are issued to regulate new construction and ensure public safety. Permits, privilege fees, and licenses are comprised of fees from parks and recreation, fees for permits, licenses and other privileges subject to City regulation, partially to cover the expense of providing the regulatory services (taxi permits, zoning inspections, construction permits, etc.) to the community. Revenues from this source represent approximately 0.5 percent (\$3.9 million) of the City's General Fund revenues. Historical growth in this revenue source has been driven by the increase in construction activity in the City.

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## **FINES AND FORFEITURES**

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Fines and forfeitures consist of revenues received from the courts as fines and forfeitures for violations of City ordinances. These provide approximately 0.2 percent (\$1.3 million) of the City's General Fund revenues.

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## **CHARGES FOR SERVICES**

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Charges for Services consist of revenues from fees for services, including Zoo admission, the serving of legal papers by local law enforcement officers, refuse disposal, court costs, paramedical rescue service, and miscellaneous school fees. This revenue represents approximately 2.9 percent (\$22 million) of the City's General Fund revenues. Southeastern Public Service Authority (SPSA) raised the tipping fee effective July 1, 2006. To offset this increase, the City raised refuse fees citywide. Residents, for example, will see an increase of \$1.75 per month, resulting in a monthly fee of \$14.50. The fee increase is estimated to produce approximately \$1.4 million in additional revenue.

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## **USE OF MONEY AND PROPERTY**

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Revenue from the Use of Money and Property is comprised primarily of interest earned on cash balances, rents from short and long-term property leases and prudent management of City assets. Revenues from this source represent approximately 1.1 percent (\$8 million) of the City's General Fund revenues.

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## **RECOVERED COSTS**

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Recovered costs consist of revenues representing the Capital and Operating expense recovered from expenses associated with employee costs, City and outside agencies, and the public. Recovered costs constitute 1.2 percent (\$9 million) of the City's General Fund revenues. The decline in this revenue source is driven mainly by the end of reimbursements for soundwall projects.

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## MISCELLANEOUS REVENUE

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Miscellaneous revenue consists of revenues that are not classified in the other categories. Included in this category are revenue from payments in lieu of taxes and proceeds from land sales. In FY 2007, the City is expecting to receive about \$4 million which makes up approximately 0.5 percent of the City's General Fund revenues.

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## NON-CATEGORICAL AID - VIRGINIA

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Non-Categorical Aid - Virginia contains State revenues shared with localities without restriction as to use. This includes taxes on wine, railroad equipment, car rentals and deeds, as well as profits from the operations of the Alcoholic Beverage Control Board and the HB 599 funds for local law enforcement. This category represents 4.5 percent (\$34.6 million) of the City's General Fund revenues.

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## SHARED EXPENSES

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Shared Expenses consist of recovered costs primarily from the State for a portion of the salaries and operating expenses of constitutional and other offices serving the Norfolk community, including Sheriff and Jail, City Treasurer, Commissioner of the Revenue, Clerk of Circuit Court, and the Commonwealth Attorney. This revenue makes up 2.5 percent (\$19.5 million) of the City's General Fund revenues.

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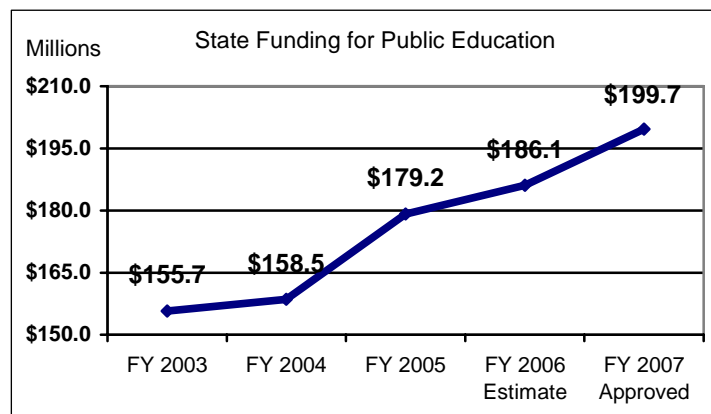
## STATE CATEGORICAL AID

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Categorical Aid from the Commonwealth consists of revenues for education, public assistance grants and social service programs, Virginia Department of Transportation (VDOT) funding for street maintenance and local adult correctional facility revenues. Categorical Aid constitutes 34.7 percent (\$266 million) of the City's General Fund revenues.

State reimbursements for the cost of operating the Social Services Department include cost of personnel services, fringe benefits, non-personal services, rent for buildings and parking, etc. The reimbursement rate varies by program from 50 to 70 percent of the overall costs incurred.

Funding for education makes up the bulk of the categorical aid received by the City. Two major categories that form this revenue source are the State Sales and Use Tax and State School Funds. State Sales and Use Tax is the revenue from the City's proportionate share of the one percent of the State Sales and Use Tax, designated for education purposes. The City's share is based on the ratio of the number of school age children



in the City to the number of school age children statewide. Additionally in FY 2005, half of the one-half cent sales tax increase approved by the General Assembly was earmarked for local school systems and real estate tax relief. This amounts to an additional one-quarter percent on the sales tax dedicated to schools. Half of that quarter percent is distributed in

the same manner as the 1 percent return discussed above. The other half of the quarter percent goes to support the Standards of Quality (SOQ) funding reflected in State School Funds.

State School Funds reflect the schools operational costs. The rate of reimbursements is based on the SOQ formula. Reimbursement rates vary by program and area of emphasis. Changes in enrollment figures affect this revenue source. Localities are required to match the State contribution based on a composite index. Currently, Norfolk more than funds its share of local effort.

Street construction and maintenance revenue is received from VDOT to maintain the City's principal and minor arterials, collector roads and local streets based on moving lane miles. The revenue is provided based on a statewide maintenance index of the unit costs used on roads and bridges. Changes in the index are used to calculate and implement annual per-land-mile rates. The rates fluctuate on index changes and number of miles assessed. Funds offset qualifying operating costs recorded in the City's budget.

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### **FEDERAL CATEGORICAL AID**

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Federal Categorical Aid primarily consists of education funds from the federal government and is 1.2 percent (\$8.8 million) of the FY 2007 General Fund revenues.

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### **OTHER SOURCES AND TRANSFERS**

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Other Sources and Transfers consist of intra-governmental transfers and carry over monies and amount to 1.9 percent (\$14 million) of the City's General Fund revenues. For the General Fund, the City anticipates carrying forward \$3.085 million from FY 2006 to FY 2007.

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# TAX RATES AND MAJOR FEES

DESCRIPTION	FY 2006 APPROVED	FY 2007 APPROVED
<b>PROPERTY TAXES</b>		
<b>Real Estate</b>	<b>\$1.35/\$100 Assessed Value</b>	<b>\$1.27/\$100 Assessed Value</b>
<b>Personal Property</b>		
Airplane	\$2.40/ \$100 Assessed Value	\$2.40/ \$100 Assessed Value
Motor Vehicle	\$4.00/\$100 Assessed Value	\$4.00/\$100 Assessed Value
Recreational Vehicle	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Property - Machinery & Tools	\$4.00/\$100 Assessed Value (40% of Original Cost)	\$4.00/\$100 Assessed Value (40% of Original Cost)
Watercraft - Business	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Watercraft - Recreational	\$0.01/\$100 Assessed Value	\$0.01/\$100 Assessed Value
<b>OTHER LOCAL TAXES</b>		
Amusement and Admissions	10%	10%
Cigarette	2.75 mils/cigarette (55 cents/pack)	2.75 mils/cigarette (55 cents/pack)
Emergency 911	\$2.95/Line/Month	\$2.95/Line/Month
Hotel/Motel Lodging	8%	8%
Restaurant Meal	6.5%	6.5%
Motor Vehicle License:		
Small Trailers (<2,000 pounds)	\$6.50	\$6.50
Motorcycles	\$15.00	\$15.00
Cars & Small Trucks	\$26.00	\$26.00
Semi Trailers	\$20.00	\$20.00
Mid-Size Trucks/Vans (>4,000 pounds)	\$31.00	\$31.00
Large Vehicles (19,000 pounds and over)	\$1.60-\$1.80/1,000 pounds of gross weight	\$1.60-\$1.80/1,000 pounds of gross weight
Passenger (>10)	\$0.30/100 pounds of weight (not less than \$26)	\$0.30/100 pounds of weight (not less than \$26)
<b>REFUSE DISPOSAL</b>		
<b>Commercial</b>		
<b>Business 1 times per week</b>	<b>\$23.26/Unit/Month</b>	<b>\$26.45/Unit/Month</b>
<b>Business 5 times per week</b>	<b>\$57.64/Unit/Month (CBD Only)</b>	<b>\$65.56/Unit/Month (CBD Only)</b>

DESCRIPTION	FY 2006 APPROVED	FY 2007 APPROVED
<b>Residential</b>		
Single Units & Multiple Units (four or less)	\$12.75/Unit/Month	\$14.50/Unit/Month
Multiple Units (five or more)	\$17.84/Container/Month	\$20.29/Container/Month
Combined Commercial-Residential	\$36.01/Unit/Month	\$40.95/Unit/Month
<b>WATER AND WASTEWATER FEES</b>		
Wastewater	\$2.57/100 cubic feet	\$2.67/100 cubic feet
Water Charges	\$3.26/100 cubic feet	\$3.37/100 cubic feet
<b>STORM WATER FEES</b>		
Residential	\$5.48/month	7.60/month
Commercial	\$3.72/mo per 2,000 sq. ft.	\$5.24/mo per 2,000 sq. ft.
<b>UTILITY TAXES</b>		
<b>Commercial</b>		
Gas	\$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance per month (Max of \$500/month)	\$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance per month (Max of \$500/month)
Electricity (Manufacturing)	\$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance per month (Max of \$53,000/month)	\$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance per month (Max of \$53,000/month)
Electricity (Non-Manufacturing)	\$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance per month	\$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance per month
Telephone	25% on all Line Charges	25% on all Line Charges
<b>Residential</b>		
Cable and Satellite Service	7% on Total	7% on Total
Electricity	\$1.75 + \$0.016891/kWh monthly (Capped at \$3.75/ month)	\$1.75 + \$0.016891/kWh monthly (Capped at \$3.75/ month)
Gas	\$1.50/month	\$1.50/month
Telephone (cellular)	10% on First \$30/Month Local Service	10% on First \$30/Month Local Service
Telephone (Line)	25% of Local Bill	25% of Local Bill
Water (5/8" Meter)	25% on First \$22.50/month	25% on First \$22.50/month

# GENERAL FUND BALANCE RESERVES

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The establishment and maintenance of general operating reserves is considered one of the most effective management practices a local government can employ.

The purpose of a reserve is to act as the City's "savings" account to meet emergency, non-anticipated needs without jeopardizing the ongoing provision of city services. Reserves help to cushion against cash flow issues, as seen in FY 2004 with the expenses of Hurricane Isabel. The appropriate size of reserves depends on variability of revenues and expenditures and an organization's cash flow needs. In recent years, the city's General Fund was required to "borrow" money from other city operating funds on an intra-year basis to cover an approximate \$10 million cash deficit in the fund.

General Fund Balance Reserves			
RESERVE	FY 2005 ACTUAL	FY 2006 GOAL	FY 2006 PROJECTED
Undesignated Reserve	\$35,052,179	\$36,398,420	\$36,398,420
Risk Management Reserve	\$4,728,960	\$9,000,000	\$4,728,960
Economic Downturn/ Leveling Reserve	\$4,000,000	\$10,000,000	\$4,000,000
<b>General Fund Balance Reserves at June 30*</b>	<b>\$43,781,139</b>	<b>\$55,398,420</b>	<b>\$45,127,380</b>

Note: Amount excludes reserves for encumbrances and other legally restricted reserves and designations for specific appropriations. Undesignated reserve goal for FY 2006 is based on FY 2006 General Fund Operating Budget of \$727,968,400.

# SUMMARY OF CHANGES IN FUND BALANCES

General Fund			
	FY 2005 ACTUAL	FY 2006 APPROVED	FY 2007 APPROVED
<b>Operating Revenues</b>			
General property taxes	192,894,904	206,599,000	226,655,500
Other local taxes	141,510,674	143,830,400	148,098,800
Permits and fees	3,541,516	3,441,400	3,907,400
Fines and forfeitures	1,763,078	1,671,500	1,327,000
Commonwealth	291,647,177	305,333,900	320,217,800
Federal	9,097,218	8,354,000	8,843,200
Charges for services	18,857,789	20,723,800	21,947,100
Miscellaneous	2,017,896	4,332,200	4,020,400
Recovered costs	14,236,898	12,758,200	9,043,200
<b>Total Operating Revenues</b>	<b>675,567,150</b>	<b>707,044,400</b>	<b>744,060,400</b>
<b>Operating Expenses</b>			
Personnel services	316,378,393	214,445,821	224,023,971
Contractual services	39,237,993	45,805,786	50,267,661
Materials, supplies and repairs	32,170,719	33,450,126	36,529,543
All purpose appropriations	208,779,486	344,688,484	368,254,532
Public assistance	22,955,407	22,528,761	21,195,994
<b>Total Operating Expenses</b>	<b>619,521,998</b>	<b>660,918,978</b>	<b>700,271,701</b>
<b>Operating Income (Loss)</b>	<b>56,045,152</b>	<b>46,125,422</b>	<b>43,788,699</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	8,200,236	6,597,500	8,279,000
Capital outlay	(3,513,779)	(2,188,337)	(3,334,098)
Debt service	(58,570,027)	(59,993,885)	(59,783,601)
Acctg. for Schools as Component Unit	(10,073,363)	-	-
Acctg. for Encumbrances for Budget not GAAP	5,434,734	-	-
<b>Total Non-Operating Revenue/Expense</b>	<b>(58,522,199)</b>	<b>(55,584,722)</b>	<b>(54,838,699)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>(2,477,047)</b>	<b>(9,459,300)</b>	<b>(11,050,000)</b>
Operating transfers in	10,000,000	10,000,000	11,265,000
Operating transfers out	(1,135,000)	(3,300,000)	(3,300,000)
<b>Total Operating Transfers</b>	<b>8,865,000</b>	<b>6,700,000</b>	<b>7,965,000</b>
<b>Net Income (Loss)</b>	<b>6,387,953</b>	<b>(2,759,300)</b>	<b>(3,085,000)</b>
<b>Beginning fund balance at July 1</b>	<b>61,790,656</b>	<b>68,178,609</b>	<b>65,419,309</b>
<b>Ending fund balance at June 30</b>	<b>68,178,609</b>	<b>65,419,309</b>	<b>62,334,309</b>



# SUMMARY OF CHANGES IN FUND BALANCES

Special Revenue Funds			
	FY 2005 ACTUAL	FY 2006 APPROVED	FY 2007 APPROVED
<b>Operating Revenues</b>			
General property taxes	397,624	1,192,900	1,837,500
Other local taxes	8,966,795	9,232,014	9,185,535
Permits and Fees	-	810,000	800,900
Fines and forfeitures	-	-	-
Commonwealth	184,918	-	-
Federal	600,859	316,743	469,603
Charges for services	14,101,575	11,369,900	14,462,810
Miscellaneous	1,036,023	488,000	430,700
Recovered costs	-	1,282,978	1,423,728
<b>Total Operating Revenues</b>	<b>25,287,794</b>	<b>24,692,535</b>	<b>28,610,776</b>
<b>Operating Expenses</b>			
Personnel services	10,713,578	11,364,345	12,253,590
Contractual services	3,711,114	4,692,766	6,308,969
Materials, supplies and repairs	2,173,186	2,267,286	2,991,881
Depreciation	-	-	-
Bad debt expense	-	-	-
All purpose appropriations	3,410,146	7,960,863	7,571,958
<b>Total Operating Expenses</b>	<b>20,008,024</b>	<b>26,285,260</b>	<b>29,126,398</b>
<b>Operating Income (Loss)</b>	<b>5,279,770</b>	<b>(1,592,725)</b>	<b>(515,622)</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	17,076	1,647,000	1,805,240
Capital outlay	-	(398,653)	(135,240)
Interest and fiscal charges	-	-	-
Debt service	-	(2,761,987)	(4,815,062)
<b>Total Non-Operating Revenue/Expense</b>	<b>17,076</b>	<b>(1,513,640)</b>	<b>(3,145,062)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>5,296,846</b>	<b>(3,106,365)</b>	<b>(3,660,684)</b>
Operating transfers in	1,994,226	3,106,365	3,660,684
Operating transfers out	(8,160,785)	-	-
<b>Total Operating Transfers</b>	<b>(6,166,559)</b>	<b>3,106,365</b>	<b>3,660,684</b>
<b>Net Change in Fund Balance</b>	<b>(869,713)</b>	<b>-</b>	<b>-</b>
<b>Beginning fund balance at July 1</b>	<b>7,743,343</b>	<b>6,873,630</b>	<b>6,873,630</b>
<b>Ending fund balance at June 30</b>	<b>6,873,630</b>	<b>6,873,630</b>	<b>6,873,630</b>

# SUMMARY OF CHANGES IN NET ASSETS

Enterprise Funds			
	FY 2005 ACTUAL	FY 2006 APPROVED	FY 2007 APPROVED
<b>Operating Revenues</b>			
General property taxes	-	-	-
Other local taxes	-	-	-
Permits and Fees	-	-	-
Fines and forfeitures	-	1,576,000	1,808,000
Commonwealth	-	-	-
Federal	-	-	-
Charges for services	103,390,264	110,979,911	115,897,110
Miscellaneous	3,657,324	3,321,173	3,780,287
Recovered costs	-	-	-
<b>Total Operating Revenues</b>	<b>107,047,588</b>	<b>115,877,084</b>	<b>121,485,397</b>
<b>Operating Expenses</b>			
Personnel services	26,199,944	23,258,641	24,433,413
Contractual services/Other	17,454,134	16,802,105	17,410,099
Materials, supplies and repairs	13,258,878	12,908,863	15,127,432
Depreciation	14,994,372	-	-
Bad debt expense	250,735	-	-
All purpose appropriations	-	5,820,403	6,221,577
<b>Total Operating Expenses</b>	<b>72,158,063</b>	<b>58,790,012</b>	<b>63,192,521</b>
<b>Operating Income (Loss)</b>	<b>34,889,525</b>	<b>57,087,072</b>	<b>58,292,876</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	863,528	1,023,926	1,390,141
Capital outlay	-	(1,556,941)	(1,987,315)
Interest and fiscal charges	-	-	-
Loss-sale of fixed assets & investments	(852,478)	-	-
Debt service	(18,645,483)	(46,559,947)	(47,701,464)
<b>Total Non-Operating Revenue/Expense</b>	<b>(18,634,433)</b>	<b>(47,092,962)</b>	<b>(48,298,638)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>16,255,092</b>	<b>9,994,110</b>	<b>9,994,238</b>
Operating transfers in	-	5,890	5,762
Operating transfers out	(10,000,000)	(10,000,000)	(10,000,000)
<b>Total Operating Transfers</b>	<b>(10,000,000)</b>	<b>(9,994,110)</b>	<b>(9,994,238)</b>
<b>Net Income (Loss)</b>	<b>6,255,092</b>	<b>-</b>	<b>-</b>
<b>Beginning Net Assets at July 1</b>	<b>279,351,941</b>	<b>285,607,033</b>	<b>285,607,033</b>
<b>Ending Net Assets at June 30</b>	<b>285,607,033</b>	<b>285,607,033</b>	<b>285,607,033</b>

# SUMMARY OF CHANGES IN NET ASSETS

Internal Service Funds			
	FY 2005 ACTUAL	FY 2006 APPROVED	FY 2007 APPROVED
<b>Operating Revenues</b>			
General property taxes	-	-	-
Other local taxes	-	-	-
Permits and Fees	-	-	-
Fines and forfeitures	-	-	-
Commonwealth	-	-	-
Federal	-	-	-
Charges for services	11,442,640	9,610,200	11,774,721
Miscellaneous	97,884	-	-
Recovered costs	-	70,000	70,000
<b>Total Operating Revenues</b>	<b>11,540,524</b>	<b>9,680,200</b>	<b>11,844,721</b>
<b>Operating Expenses</b>			
Personnel services	3,461,003	3,931,783	4,052,897
Cost of Goods Sold	6,814,548	-	-
Contractual services/Other	1,075,566	659,899	823,475
Materials, supplies and repairs	346,965	4,927,333	6,975,179
Depreciation	343,943	-	-
Bad debt expense	-	-	-
All purpose appropriations	-	1,000	1,000
<b>Total Operating Expenses</b>	<b>12,042,025</b>	<b>9,520,015</b>	<b>11,852,551</b>
<b>Operating Income (Loss)</b>	<b>(501,501)</b>	<b>160,185</b>	<b>(7,830)</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	31,864	43,000	79,479
Capital outlay	-	(203,185)	(71,649)
Interest and fiscal charges	-	-	-
Debt service	-	-	-
<b>Total Non-Operating Revenue/Expense</b>	<b>31,864</b>	<b>(160,185)</b>	<b>7,830</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>(469,637)</b>	<b>-</b>	<b>-</b>
Operating transfers in	-	-	-
Operating transfers out	-	-	-
<b>Total Operating Transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>(469,637)</b>	<b>-</b>	<b>-</b>
<b>Beginning Net Assets at July 1</b>	<b>9,965,068</b>	<b>9,495,431</b>	<b>9,495,431</b>
<b>Ending Net Assets at June 30</b>	<b>9,495,431</b>	<b>9,495,431</b>	<b>9,495,431</b>

# TRANSFERS FROM / TO

## FROM GENERAL FUND TO:

Cemetery	588,881
CIP (Debt Service)	3,300,000
EOC	1,026,450
Nauticus	1,746,000
<b>Total Transfer from General Fund</b>	<b>6,661,331</b>

## TO GENERAL FUND FROM:

Special Revenue Funds	1,265,000
Water Fund	8,500,000
Wastewater Fund	1,500,000
<b>Total Transfer to General Fund</b>	<b>11,265,000</b>

## TO CAPITAL IMPROVEMENT PLAN FUND FROM:

Public Amenities	1,225,000
<b>Total Transfer to Capital Improvement Plan</b>	<b>1,225,000</b>

# PERSONNEL STAFFING SUMMARY

	FY 2005 APPROVED	FY 2006 APPROVED	FY 2007 APPROVED	Increase (Decrease) FY 2006 to FY 2007
<b>GENERAL FUND</b>				
<b>General Government</b>				
<b>Legislative</b>				
City Council	8	8	8	
City Clerk	11	11	14	3
<b>Executive</b>				
Budget & Management	11	12	12	
City Manager	16	19	19	
Communications and Public Information	16	16	16	
Intergovernmental Relations	4	4	4	
Office to End Homelessness	2	2	2	
Office of Grants Management	3	3	3	
<b>General Management</b>				
City Attorney	34	36	38	2
City Auditor	7	7	7	
City Treasurer	31	31	31	
Commissioner of the Revenue	43	43	43	
Finance & Business Services <sup>1</sup>	48	133	134	1
Facility & Enterprise Management <sup>1</sup>	89	0	0	
Elections	9	9	9	
Human Resources	35	35	36	1
Information Technology	78	78	82	4
Real Estate Assessor	22	23	22	-1
Records Management	3	3	3	
<b>Total General Government</b>	<b>470</b>	<b>473</b>	<b>483</b>	<b>10</b>

1. Facility & Enterprise Management was consolidated and assigned to the Department of Finance & Business Services during the FY 2006 budget process.

	FY 2005 APPROVED	FY 2006 APPROVED	FY 2007 APPROVED	Increase (Decrease) FY 2006 to FY 2007
<b>Judicial</b>				
Circuit Court Judges	5	5	5	
Clerk of Circuit Court	52	52	52	
Commonwealth's Attorney	59	60	59	-1
Sheriff and Jail	473	474	484	10
<b>Total Judicial</b>	<b>589</b>	<b>591</b>	<b>600</b>	<b>9</b>
<b>Public Health</b>				
Human Services	578	576	574	-2
Public Health	41	37	36	-1
<b>Total Public Health</b>	<b>619</b>	<b>613</b>	<b>610</b>	<b>-3</b>
<b>Public Safety</b>				
Fire-Rescue Service	499	502	508	6
Police	873	873	886	13
Radio & Electronics	6	6	6	
<b>Total Public Safety</b>	<b>1378</b>	<b>1381</b>	<b>1400</b>	<b>19</b>
<b>Public Works</b>				
Public Works	338	339	343	4
<b>Total Public Works</b>	<b>338</b>	<b>339</b>	<b>343</b>	<b>4</b>
<b>Parks, Recreation &amp; Cultural</b>				
Cultural Facilities, Arts & Entertainment	72	75	77	2
Neighborhood & Leisure Services	263	0	0	
Neighborhood Preservation	0	55	80	25
Public Libraries	78	81	84	3
Recreation/Parks and Open Space	0	220	229	9
Zoological Park	46	47	47	
<b>Total Parks, Recreational &amp; Cultural</b>	<b>459</b>	<b>478</b>	<b>517</b>	<b>39</b>
<b>Community Development</b>				
Development	20	20	20	
Planning & Community Development	75	74	74	
<b>Total Community Development</b>	<b>95</b>	<b>94</b>	<b>94</b>	
<b>TOTAL GENERAL FUND</b>	<b>3,948</b>	<b>3,969</b>	<b>4,047</b>	<b>78</b>

\*Additional positions shown above include a mixture of positions created during Fiscal Year 2006 and new positions requested during the FY 2007 budget process.

	FY 2005 APPROVED	FY 2006 APPROVED	FY 2007 APPROVED	Increase (Decrease) FY 2006 to FY 2007
<b>SPECIAL REVENUE FUNDS</b>				
Cemetery	36	36	38	2
Cruise Ship Terminal <sup>3</sup>	-	4	4	
Emergency Preparedness and Response	86	86	91	5
Nauticus <sup>3</sup>	43	37	37	
Storm Water Fund	74	73	76	3
Towing	9	9	9	
<b>Total Special Revenue Funds</b>	<b>248</b>	<b>245</b>	<b>255</b>	<b>10</b>
<b>COMMUNITY DEVELOPMENT FUND</b>				
Office of Grants Management (CDBG)	3	4	4	
<b>Total Community Development Fund</b>	<b>3</b>	<b>4</b>	<b>4</b>	
<b>ENTERPRISE FUNDS</b>				
Parking Facilities Fund	91	100	101	1
Wastewater Utility Fund	102	102	102	
Water Utility Fund	284	286	286	
<b>Total Enterprise Funds</b>	<b>477</b>	<b>488</b>	<b>489</b>	<b>1</b>
<b>INTERNAL SERVICE FUNDS</b>				
Fleet	69	69	69	0
Storehouse	11	11	11	
<b>Total Internal Service Funds</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>0</b>
<b>Total Other Funds</b>	<b>808</b>	<b>817</b>	<b>828</b>	<b>11</b>
<b>TOTAL ALL FUNDS</b>	<b>4,756</b>	<b>4,786</b>	<b>4,875</b>	<b>89</b>

# Personnel Staffing Narrative

## **CITY ATTORNEY**

Added (2) Assistant City Attorney I, (2) Deputy City Attorney I, (1) Paralegal, (1) Paralegal Claims Adjuster I, and (1) Paralegal Claims Adjuster II.

Eliminated (2) Assistant City Attorney III, (1) Claims Adjuster II, (1) Deputy City Attorney II, and (1) Paralegal Claims Investigator.

## **CITY CLERK**

Added (1) Assistant City Clerk/Support Technician, (1) Deputy City Clerk/Executive Assistant to the Mayor, (1) Deputy City Clerk/Secretary, and (1) Deputy City Clerk/Secretary to Mayor.

Eliminated (1) Deputy City Clerk/Executive Assistant I

## **CITY COUNCIL**

Added (1) Member of Council.

Eliminated (1) Deputy City Clerk/Secretary to Mayor.

## **CITY MANAGER**

Added (1) Administrative Secretary.

Eliminated (1) Secretary to the City Manager.

## **COMMISSIONER OF THE REVENUE**

Added (1) Accounting Technician.

Eliminated (1) License Inspector I.

## **COMMONWEALTH ATTORNEY**

Eliminated (1) Asst Commonwealth's Attorney II.

## **CULTURAL FACILITIES, ARTS & ENTERTAINMENT**

Added (1) Accountant I, (1) Administrative Assistant II, (1) Box Office Supervisor, (1) Event Manager, (2) Maintenance Worker I, (1) Maintenance Worker II, (1) Manager of Visitor Marketing, (1) Office Manager, (1) Public Relations Specialist.

Eliminated (3) Accounting Technician, (2) Administrative Secretary, (1) Media & Productions Manager, (1) Plumber II, and (1) Public Information Specialist I.

## **FINANCE & BUSINESS SERVICES**

Added (1) Civil Engineer II and (1) Fiscal Systems Analyst.

Eliminated (1) Microcomputer Systems Analyst.

## **FIRE-RESCUE**

Added (6) Operations Officer I

## **INFORMATION TECHNOLOGY**

Added (1) Business Process Management Analyst, (1) Network Engineer II, (4) Programmer/Analyst IV, (2) Senior Micro Computer Systems Analyst, (2) Service & Support Team Supervisor, (1) Services & Support Manager, (1) Wireless Communications Manager.

Eliminated (1) Applications Development Team Supervisor, (1) Information Technology Trainer, (1) Information Technology Telecommunications Technician, (1) Manager of Microcomputers & Radio Communication Systems, (1) Microcomputer Systems Team Supervisor, (1) Microcomputer Systems Analyst, (2) Programmer/Analyst II.

## **HUMAN RESOURCES**



# Personnel Staffing Narrative

Added (1) Accounting Technician, (1) Human Resources Team Leader, (1) License Inspector II, (1) Personnel Specialist, and (1) Support Technician.

Eliminated (1) Human Resources Generalist, (1) Office Aide, (1) Office Assistant, and (1) Staff Technician II.

## HUMAN SERVICES

Added (1) Child Counselor III, (5) Social Work Associate, and (1) Social Worker III.

Eliminated (1) Child Counselor II, (1) Data Processing Assistant, (1) Deputy City Attorney, (2) Human Services Aide, (1) Paralegal, and (3) Social Worker I.

## LIBRARIES

Added (1) Information Technology Trainer, (1) Librarian III, (1) Library Assistant II, (1) Management Analyst III, (1) Microcomputer Systems Analyst, and (1) Public Service Coordinator.

Eliminated (1) Library Associate II, (1) Management Analyst II and (1) Support Technician.

## NEIGHBORHOOD PRESERVATION

Added (1) Accounting Technician, (2) Administrative Assistant II, (1) Administrative Secretary, (1) Administrative Services Manager, (1) Administrative Technician, (2) Architect II, (1) Architect III, (1) Assistant Director of Planning, (5) Bureau Manager, (1) City Planner II, (1) City Planning Manager, (1) Management Analyst I, (1) Management Analyst II, (1) Management Analyst III, (1) Neighborhood Development Specialist, (1) Program Supervisor, (1) Public Information Specialist II, (1) Public Services Coordinator I, (4) Senior Codes Specialist, (1) Senior Design and Rehabilitation Consultant, (1) Senior Planner, (1) Senior Recreation Supervisor II, (1) Youth Development Manager.

Eliminated (1) Chief of Neighborhood Preservation, (3) Codes Specialist, (2) Environmental Health Assistant I, (1) Neighborhood Services Manager.

## PLANNING & COMMUNITY DEVELOPMENT

Added (1) City Planner I, (1) City Planning Technician, (1) Permits Specialist, (1) Permit Technician, (2) Principal Codes Specialist, (1) Principal Planner, (2) Senior Planner, (1) Senior Codes Specialist, (2) Senior Permits Specialist, and (1) Zoning Enforcement Specialist III.

Eliminated (1) Administrative Assistant II, (1) Administrative Technician, (2) Architect II, (1) Architect III, (1) Assistant Director of Planning, (2) City Planner II, (3) City Planner III, (1) Contract Administrator, and (1) Public Services Coordinator I.

## POLICE

Added (1) Assistant Chief of Police, (1) Fiscal Manager II, (12) Operations Officer I.

Eliminated (1) Police Planning Manager.

## PUBLIC HEALTH

Eliminated (1) Support Technician.

## PUBLIC WORKS

Added (1) Administrative Assistant II, (1) Administrative Technician (1) Civil Engineer III, (1) Civil Engineer IV, (1) Construction Inspector II, (1) Construction Inspector III, (2) Project Manager, (1) Public Services Coordinator I, (1) Right of Way Program Manager, (1) Staff Technician I, (1) Staff Technician II, and (2) Traffic Sign Fabricator II

Eliminated (1) Accounting Technician, (1) Civil Engineer II, (1) Custodian (1) Engineering Technician II, (1) Sign Manufacturing Technician, (1) Street Maintenance Supervisor, (3) Support Technician,

# Personnel Staffing Narrative

(1) Traffic sign Fabricator.

## **SHERIFF & JAIL**

Added (10) Deputy Sheriff.

## **REAL ESTATE ASSESSOR**

Added (1) Real Estate Appraiser I and (1) Real Estate Appraiser III.

Eliminated (1) Programmer/Analyst II and (2) Real Estate Appraiser II.

## **RECREATION/PARKS AND OPEN SPACE**

Added (1) Accountant I, (1) Athletics Groundskeeper, (3) Bureau Manager, (7) Division Head, (3) Lifeguard, (1) Recreation Specialist, (1) Recreation Supervisor.

Eliminated (1) Administrative Assistant II, (1) Administrative Technician, (1) Assistant Director of Recreation, Parks & Open Space, (1) Assistant Superintendent of Parks/Forestry, (1) Public Services Coordinator I, (1) Senior Recreation Supervisor II, (1) Staff Technician II, (1) Youth Development Manager.

## **ZOOLOGICAL PARK FUND**

Added (1) Visitor Services Assistant.

Eliminated (1) Customer Service Representative.

## **EMERGENCY PREPAREDNESS AND RESPONSE**

Added (4) Public Safety Telecommunicator Trainees and (2) Public Safety Telecommunicator I.

Eliminated (1) Public Safety Telecommunicator II.

## **PARKING FACILITIES FUND**

Added (1) Administrative Assistant II

## **STORM WATER MANAGEMENT**

Added (1) Accountant I, (1) Engineering Technician II, (2) Support Technicians and (1) Utility Maintenance Mechanic I.

Eliminated (1) Maintenance Worker I, and (1) Storm Water Assistant Superintendent.

## **CEMETERIES**

Added (2) Division Head, and (1) Genealogy Info Specialist, and (1) Bureau Manager.

Eliminated (1) Assistant Superintendent of Cemeteries, and (1) Superintendent of Cemeteries.

## **WASTE WATER UTILITY FUND**

Added (3) Equipment Operator III

Eliminated (3) Maintenance Worker I

## **WATER UTILITY FUND**

Added (1) Automotive Mechanic, (1) Contract Monitoring Spec, (2) Crew Leader I, (1) Engineering Technician II, (1) Senior Utility Maintenance Supervisor, and (1) Waterworks Operator III.

Eliminated (1) Construction Inspector II, (1) Cross Connection Specialist, (2) Maintenance Worker II, (1) Support Technician, (1) Utility Maintenance Mechanic I, and (1) Waterworks Operator IV.

# CITY INDEBTEDNESS

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The Virginia Constitution authorizes a city in Virginia to issue general obligation bonds secured by a pledge of its full faith and credit. For the payment of such bonds, the governing body of the city is required to levy, an ad valorem tax on all property subject to local taxation to ensure debt service payment. The issuance of general obligation bonds without referendum is subject to a limitation of 10 percent of the assessed value of taxable real property in the city.

The Public Finance Act of Virginia also authorizes a city in Virginia to issue limited liability revenue bonds provided that the rates, rents, fees or other charges are sufficient to pay the cost of operation and administration and the principal and interest on the bonds when due. In determining general obligation statutory debt limitations, certain classes of indebtedness may be excluded, including revenue anticipation notes maturing in one year or less, referendum approved general obligation bonds payable from a specified revenue producing undertaking, so long as the undertaking is self-supporting, capital leases and revenue bonds. The City's enterprise operations for Water and Parking bonded debt are a combination of self-supporting, general obligation and revenue bonds. The City's operations for Wastewater and Storm Water bonded debt are self-supporting general obligation bonds. Since the self-supporting general obligation debt of each of the enterprise operations was approved without referendum they are included in the City's legal debt limit.

The following table shows the general obligation Legal Debt Margins for the current fiscal year ending June 30 and for the past four fiscal years.

AS OF	Taxable REAL PROPERTY ASSESSED VALUE	DEBT LIMIT: 10% OF ASSESSED VALUE	DEBT APPLICABLE TO DEBT LIMIT	AMOUNT OF DEBT AS % OF DEBT LIMIT	LEGAL MARGIN FOR ADDITIONAL DEBT
June 30, 2006*	12,662,696,899	1,266,269,690	608,315,727	48.04%	657,953,963
June 30, 2005	10,937,768,782	1,093,776,878	511,605,062	46.77%	582,171,815
June 30, 2004	10,029,638,801	1,002,963,880	489,541,678	48.81%	513,422,202
June 30, 2003	9,356,759,552	935,675,955	464,176,270	49.61%	471,499,686
June 30, 2002	8,882,063,788	888,206,378	463,645,861	52.20%	424,560,517
*Estimated – assumes issuance of all previously authorized General Obligation bonds					

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## OVERLAPPING DEBT

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The City of Norfolk is autonomous and independent of any county or other political subdivision and is not subject to taxation by any county or school district, nor is it liable for any county or school district indebtedness. There is no overlapping debt.

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## STATEMENT OF NO PAST DEFAULT

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The City has never defaulted on the payment of either principal or interest on any debt.

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## OUTSTANDING DEBT

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Debt service for the City's General Capital Improvements is funded from its general fund. The debt of the enterprise operations is paid solely from the revenues of the respective enterprise and internal service funds. The City's estimated outstanding bonded indebtedness at the end of FY 2006 is estimated to be \$838,531,462.

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## GENERAL CAPITAL IMPROVEMENTS—AFFORDABILITY MEASURES

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The City's Capital Improvement Plan for General Capital Improvements (those bonds not supported by an enterprise fund) is guided by three measures of affordability. These measures or debt limits, based on the approved Capital Improvement Plan, are as follows:

- Debt Service as a percent of the general fund budget (not to exceed 10 percent)
- Net debt as a percent of taxable real estate (not to exceed 3.5 percent)
- Net debt as a percentage of total per capita income (not to exceed 7.5 percent)

However, a measure of debt affordability based on income may not be appropriate for the City. When compared to the region and state, Norfolk has lower than average wealth levels, population trends and higher unemployment rates, which is not unusual in areas with high military personnel concentrations. Such a measure is likely to be skewed by the continual movement of military personnel and job turnover of military dependents. The City continues to evaluate and explore whether its internal debt affordability measures are appropriate for its citizens within the context of its capital improvement needs.

The FY 2007 Capital Improvement Program is within the three measures of affordability listed above. However, the City will face the challenge of staying within these measures in the outyears of the Capital Improvement Program.

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## ENTERPRISE OPERATIONS DEBT

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Norfolk's parking and water revenue bond programs are governed by bond indentures of trust, which specify debt coverage requirements for their respective operations. As previously noted, outstanding water and parking bonds are a combination of general obligations of the City and revenue bonds. As a matter of practice, the City pays such general obligation bonds from its respective enterprise activities. In the event that money in the respective funds is not sufficient to pay debt service on the general obligations, the City is obligated to pay such debt service from the General Fund or other available revenues.

Debt Service coverage of the enterprise operations is shown in the tables below:

## Water Utility Fund

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REVENUE BOND COVERAGE	GENERAL OBLIGATION & REVENUE BOND COVERAGE
June 30, 2006*	6,580,000	14,827,960	21,407,960	1.81	1.45
June 30, 2005	6,250,000	14,041,059	20,291,059	1.56	1.16
June 30, 2004	5,955,000	14,336,043	20,291,043	1.37	1.28
June 30, 2003	5,700,000	14,600,283	20,300,283	1.82	1.31
June 30, 2002	4,890,000	14,090,180	18,980,180	1.83	1.29
*Estimated					

## Wastewater Utility Fund

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REVENUE BOND COVERAGE	GENERAL OBLIGATION & REVENUE BOND COVERAGE
June 30, 2006*	4,515,786	2,335,372	6,851,158	N/A	1.49
June 30, 2005	3,763,566	1,667,463	5,431,029	N/A	1.92
June 30, 2004	3,439,671	1,742,920	5,182,591	N/A	1.87
June 30, 2003	3,960,161	2,516,573	6,476,734	N/A	1.03
June 30, 2002	3,525,753	2,222,877	5,748,630	N/A	0.88
*Estimated					

## Parking Enterprise Fund

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	REVENUE BOND COVERAGE	GENERAL OBLIGATION & REVENUE BOND COVERAGE
June 30, 2006*	1,760,000	4,252,396	6,012,396	1.56	1.17
June 30, 2005	1,440,000	4,138,337	5,578,337	2.03	1.34
June 30, 2004	1,155,000	4,293,356	5,448,356	2.41	1.66
June 30, 2003	1,080,000	4,324,816	5,404,816	2.11	2.11
June 30, 2002	1,010,000	4,673,455	5,683,455	1.96	1.96
*Estimated					

# COMPUTATION OF LEGAL DEBT MARGIN

## JUNE 30, 2006 (ESTIMATED)

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Total Assessed Value of Taxed Real Property as of June 30, 2006 (estimated)		<u>\$12,662,696,899</u>
Debt Limit - 10 percent of Total Assessed Value		<u>\$1,266,269,690</u>
Amount of Debt Applicable to Debt Limit:		
Gross Debt (Notes 1 and 4) *	\$570,603,231	
General Obligation (QRBs)	16,035,000	
General Obligation (QZABs)	6,082,496	
General Obligation (Guaranty) (Note 5)	2,595,000	
HUD Section 108 Loan	<u>13,000,000</u>	<u>\$608,315,727</u>
Legal Debt Margin (Notes 2 and 3)		<u>\$657,953,963</u>
Amount of Debt as a percent of Debt Limit		<u>48.04%</u>

### Notes:

1. Defeased bonds totaling \$55,435,000 are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
2. Outstanding capital lease obligations totaling \$13,261,785 for the purchase of equipment are not included for the purpose of the legal debt margin calculations.
3. The amount of general obligation bonds authorized by ordinance, but not issued for Capital Improvement Projects is \$129,848,265.
4. Water and Parking revenue bonds are excluded from gross debt. The revenue bonds are collateralized solely from the revenue of the Water Utility and Parking Facilities Funds.
5. Includes the remaining balance of \$2,595,000 on a General Obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998. The bonds mature on August 15, 2015.
6. Includes a 20-year \$13,000,000 Section 108 Loan with HUD, which matures on August 1, 2023.

\*Estimated – assumes issuance of all previously authorized General Obligation bonds

# YEARLY MATURITY OF LONG-TERM DEBT

Fiscal Year	General Obligation			Water Revenue			Parking Revenue		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	45,135,195	20,995,956	66,131,151	7,310,000	14,379,821	21,689,821	2,015,000	4,711,305	6,726,305
2008	44,973,123	18,795,333	63,768,456	7,665,000	14,022,200	21,687,200	2,125,000	4,642,248	6,767,248
2009	44,226,786	16,868,225	61,095,011	8,050,000	13,639,869	21,689,869	2,230,000	4,529,987	6,759,987
2010	40,516,529	14,867,491	55,384,021	8,455,000	13,232,930	21,687,930	2,560,000	4,437,658	6,997,658
2011	40,197,697	13,265,061	53,462,758	8,885,000	12,800,298	21,685,298	2,635,000	4,349,050	6,984,050
2012	35,775,127	11,350,821	47,125,948	9,355,000	12,336,246	21,691,246	2,755,000	4,220,648	6,975,648
2013	29,136,099	9,688,774	38,824,873	9,845,000	11,840,223	21,685,223	2,840,000	4,086,138	6,926,138
2014	23,201,957	8,394,733	31,596,690	10,370,000	11,315,735	21,685,735	2,884,000	3,947,125	6,831,125
2015	23,229,748	7,293,636	30,523,384	10,930,000	10,760,198	21,690,198	2,970,000	3,805,350	6,775,350
2016	20,753,003	6,246,747	26,999,750	11,520,000	10,167,244	21,687,244	3,085,000	3,679,845	6,764,845
2017	17,684,027	5,302,442	22,986,468	12,150,000	9,534,216	21,684,216	3,240,000	3,536,627	6,776,627
2018	15,792,268	4,485,017	20,277,285	12,820,000	8,863,723	21,683,723	3,385,000	3,386,211	6,771,211
2019	15,987,588	3,716,783	19,704,371	13,525,000	8,159,132	21,684,132	3,545,000	3,229,023	6,774,023
2020	15,194,991	2,962,949	18,157,940	14,270,000	7,412,294	21,682,294	3,755,000	3,077,661	6,832,661
2021	13,018,435	2,236,181	15,254,617	15,070,000	6,616,407	21,686,407	3,945,000	2,892,202	6,837,202
2022	12,070,091	1,650,386	13,720,477	15,910,000	5,772,370	21,682,370	4,145,000	2,697,256	6,842,256
2023	10,423,136	1,085,143	11,508,278	16,815,000	4,878,146	21,693,146	4,350,000	2,492,016	6,842,016
2024	8,833,617	653,146	9,486,763	17,760,000	3,933,139	21,693,139	4,555,000	2,276,127	6,831,127
2025	4,077,641	364,053	4,441,695	14,105,000	3,059,816	17,164,816	4,780,000	2,049,964	6,829,964
2026	745,405	200,125	945,530	14,900,000	2,264,126	17,164,126	5,025,000	1,811,555	6,836,555
2027	-	182,750	182,750	7,345,000	1,672,888	9,017,888	5,275,000	1,560,924	6,835,924
2028	-	182,750	182,750	7,725,000	1,294,419	9,019,419	4,840,000	1,297,821	6,137,821
2029	-	182,750	182,750	8,125,000	895,384	9,020,384	5,100,000	1,041,232	6,141,232
2030	-	182,750	182,750	2,980,000	619,519	3,599,519	5,195,000	770,913	5,965,913
2031	-	182,750	182,750	3,125,000	471,506	3,596,506	5,480,000	490,107	5,970,107
2032	-	182,750	182,750	3,285,000	315,409	3,600,409	945,000	193,881	1,138,881
2033	3,400,000	30,458	3,430,458	1,185,000	208,009	1,393,009	990,000	147,335	1,137,335
2034	-	-	-	1,240,000	151,931	1,391,931	1,035,000	98,568	1,133,568
2035	-	-	-	1,300,000	93,194	1,393,194	1,090,000	47,491	1,137,491
2036	-	-	-	1,365,000	31,566	1,396,566	-	-	-
2037	-	-	-	-	-	-	-	-	-
	\$464,372,462	\$151,549,960	\$615,922,421	\$277,385,000	\$190,741,956	\$468,126,956	\$96,774,000	\$75,506,264	\$172,280,264

Fiscal Year	Lease Purchase Equipment			Totals		
	Principal	Interest	Total	Principal	Interest	Total
2007	4,072,552	284,627	4,357,179	58,532,747	40,371,708	98,904,455
2008	3,346,757	167,005	3,513,762	58,109,880	37,626,785	95,736,665
2009	2,149,221	81,159	2,230,380	56,656,007	35,119,239	91,775,246
2010	1,066,986	27,858	1,094,844	52,598,515	32,565,937	85,164,452
2011	305,657	4,374	310,031	52,023,354	30,418,782	82,442,136
2012	-	-	-	47,885,127	27,907,715	75,792,842
2013	-	-	-	41,821,099	25,615,135	67,436,234
2014	-	-	-	36,455,957	23,657,592	60,113,549
2015	-	-	-	37,129,748	21,859,183	58,988,931
2016	-	-	-	35,358,003	20,093,836	55,451,839
2017	-	-	-	33,074,027	18,373,285	51,447,312
2018	-	-	-	31,997,268	16,734,951	48,732,218
2019	-	-	-	33,057,588	15,104,938	48,162,526
2020	-	-	-	33,219,991	13,452,904	46,672,895
2021	-	-	-	32,033,435	11,744,790	43,778,225
2022	-	-	-	32,125,091	10,120,012	42,245,103
2023	-	-	-	31,588,136	8,455,304	40,043,440
2024	-	-	-	31,148,617	6,862,412	38,011,029
2025	-	-	-	22,962,641	5,473,833	28,436,474
2026	-	-	-	20,670,405	4,275,806	24,946,211
2027	-	-	-	12,620,000	3,416,562	16,036,562
2028	-	-	-	12,565,000	2,774,990	15,339,990
2029	-	-	-	13,225,000	2,119,366	15,344,366
2030	-	-	-	8,175,000	1,573,182	9,748,182
2031	-	-	-	8,605,000	1,144,363	9,749,363
2032	-	-	-	4,230,000	692,040	4,922,040
2033	-	-	-	5,575,000	385,803	5,960,803
2034	-	-	-	2,275,000	250,499	2,525,499
2035	-	-	-	2,390,000	140,685	2,530,685
2036	-	-	-	1,365,000	31,566	1,396,566
2037	-	-	-	-	-	-
	\$10,941,173	\$565,023	\$11,506,196	\$849,472,635	\$418,363,203	\$1,267,835,838